# Commonwealth of Massachusetts Office of the Comptroller

FY2007/FY2008

Annual Close/Open Meeting

Federal Reserve Bank, Boston

May 3, 2007

9:30-12:00

## Agenda

- Introduction
- ANF Presentation
- Close / Open Highlights
- Appropriation Management
- Federal Grants
- PCI
- E-Pay

- New Audit Firm KPMG
- MMARS Status
- PayInfo Implementation
- Encumbrance Management
- Accounts Payable / ISA
- New Contract Policy

# Closing / Opening Information

- http://www.mass.gov/osc
  - Closing / Opening Instructions
  - Key Date Matrix
  - Close / Open Workshops and Webcasts
    - C/O for Beginners
    - Encumbrance Management
    - ISA Management
    - Accounts Payable Management
    - New Contract and Amendment Form /Updated Policies

# **Key Dates**

May 4 Table Rolls

May 14-May 19 Roll budget structures

May 25 Load House 1

May 30 Encumbrance Deadline

June 4 FY08 MMARS opens for encumbering



## Key Dates

Last day to process FY07 transactions requiring June 29

**CTR/ANF** Approval

Final day to receive FY07 goods/services -June 30

MMARS available

Cash cutoff – 2007 revenue must be deposited by July 2

noon

July 11 MMARS unavailable

July 20 Balance Forward begins



# New Reports Policy

- Standard Report listing: MMARS, LCM and CIW
- Audit Trail designations
- Report retention periods



# Updated Security Policy

 Clarification on DHSA for employees vs non-employees

Clarification of Shared Services

 Identified alternate methods of documenting DHSA

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# **Security Officers**

 June 8<sup>th</sup> – next distribution of security listing / continue to request listings as needed

Review Roles

Review Authorized Signatories



# Martin Benison Comptroller

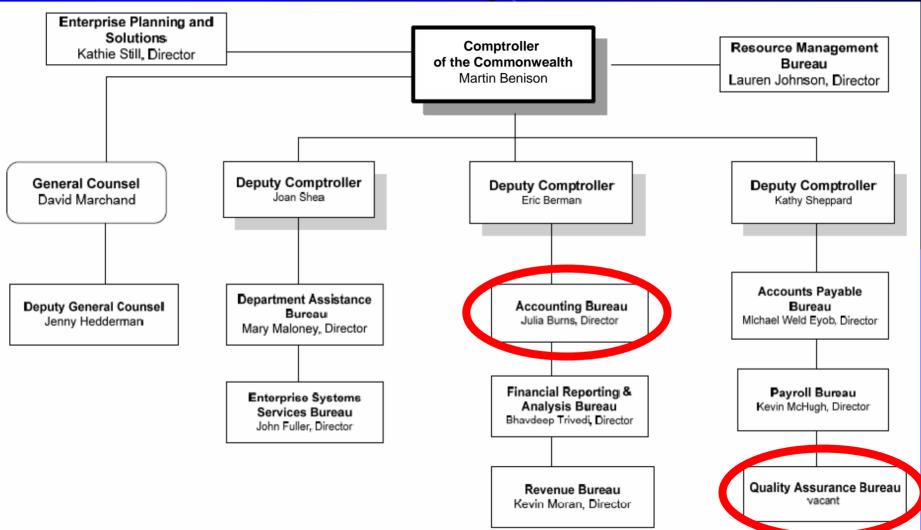
# MMARS

- Third Closing
- Fourth Opening

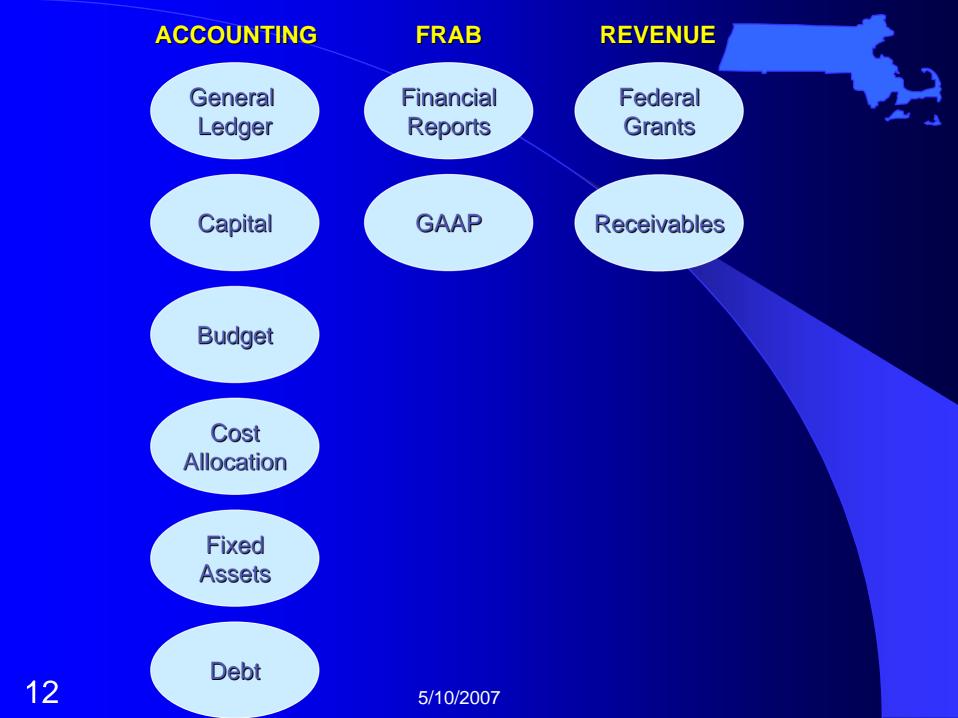


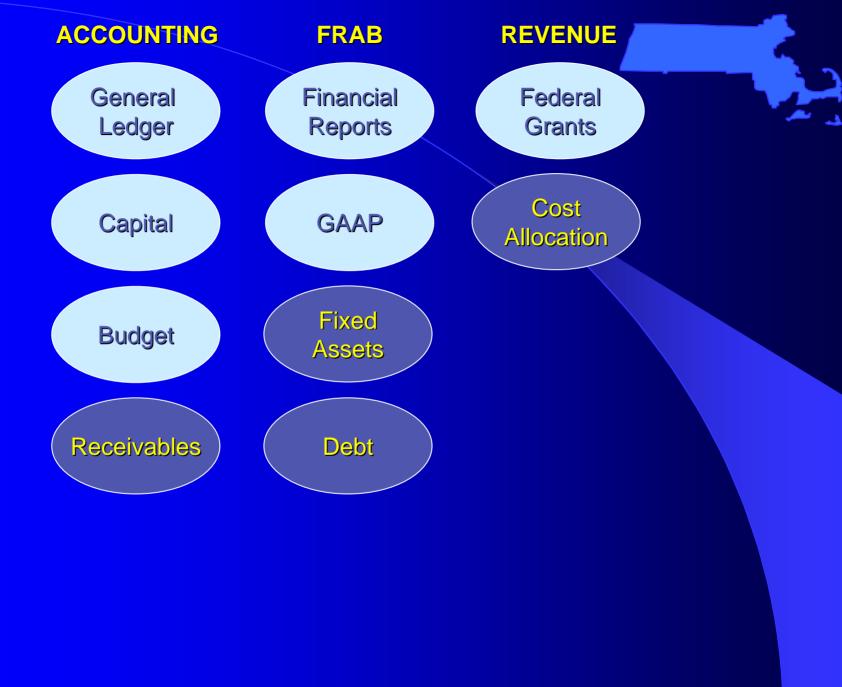
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## FY 2007 Initiatives

- Maximizing Discounts
- Benchmarking
- Auditor Transition
- Quality Assurance
- Payables Audit



## Improvement Through Benchmarking

- Monitoring pre-audit versus post audit review to achieve balance between accountability and efficiency
- Receivable system as central system for billing customers
- Electronic customer payments



### Realizing full value of HRCMS and MMARS:

- Employee self service
- Electronic invoicing by vendors
- Moving cash management functions to MMARS
- Commonwealth Internal Web Applications

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# Leslie Kirwan Secretary of Administration and Finance



# Matt Gorzkowicz Assistant Secretary for Budget



# Eric Berman Deputy Comptroller

# **Appropriation Management**

- Quick reminders
  - Budgetary transfers completed by June 15
  - Irregular balances cleared by June 30
    - Federal grants September 30
    - Includes negative uncommitted, unexpended balances
    - Includes Accrued cash
  - Expiring capital accounts if no reauthorization, July 1, all payments cease

# **Appropriation Management**

- Expenditure refunds by July 2
- Balance forward process begins the weekend of July 20-21 for continuing grants, capital and trust accounts
- Expenditure corrections by August 31

# Federal Grant Enhancements for 2007



- Details on all transactions from July 1, 2004 to present posted on the Knowledge Center to help reconcile
  - Weekly draw report
  - Cumulative draws to date
  - Negative draw prevention report
  - PowerPoint training on reconciliation and operations

#### Comptroller of the Commonwealth

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State Agencies

State Online Services



Home >

#### **Business Functions**

#### Accounts Receivable

Resources to assist and educate departments with managing all aspects of revenue collection, reconciliation and reporting.

#### **Budgets**

Resources to assist and educate departments with budgeting within the MMARS system.

#### Contracts

Resources to assist and educate departments with processing encumbrances and filing contracts, grants, subsidies, interdepartmental service agreements (ISA's) and interdepartmental chargebacks (internal business) in MMARS.

#### Federal Grants and Cost Accounting

Resources for departments to track accounting activity associated with the receipt of a federal grant.

#### Fixed Assets war

Resources to assist and educate departments with maintaining an inventory of tangible goods.

#### Information Delivery

This Information Delivery is a central reference and repository on MMARS Information Delivery. Departments should look to this web page for new and necessary Information Delivery essentials. Departments should consider it an up-to-date source and link to additional assistance, as the Office of the Comptroller and partner departments work together in the next generation of Procurement processing in MMARS.

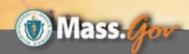
# SEARCH Office of the Comptroller Search QUICK LINKS Forms Job Aids Policies Expenditure Classification Handbook word MMARS/LCM Document Codes More...

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Home > Business Functions >

#### Federal Grants and Cost Accounting

Resources for departments to track accounting activity associated with the receipt of a federal grant.

#### Federal Grant Reconciliation Guidance

Federal Grant Related Payroll Guidance

CMIA Weekly Draw Status Reports

ACD Negative Draw Prevention Report

Federal Grants Workshop

How to Complete Federal Grant Documentation was

#### Drug Free Workplace Act Memorandum was

The Drug-Free Workplace Act of 1988 (41 USC 702) requires all recipients of federal grants to provide annual certification that the grant recipient will take certain steps to ensure a drug free workplace. Drug Free Certificate

Grants.gov

CFDA Catalog

SEARCH	
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QUICK LINKS	
Federal Grants/Cost Accounting Forms	
Federal Grants/Cost Accounting Job Aids	
Federal Grants/Cost Accounting Policies	
Expenditure Classificati Handbook waa	on
MMARS/LCM Document Codes	
More	



## Federal Grants in 2008

- VPA (Program / Appropriation Validation) Table being implemented
- Non-Central Draw account conversion for categorical grants to automated central draw
- DUNs number policy



# e-Commerce Project

- ACH pilot initiative is underway (with HCF, HRD, and DEP)
- Many departments are using credit cards (various contracts)
- Goal LOWER FEES
  - Expand functionality to other revenue streams and payment methods; and to increase volume on statewide contract to negotiate lower rates



# e-Commerce Project

- Promotion of ACH because it is a low cost option
- Evaluation of pilot projects to leverage best practices
- Steering committee provides assistance, guidance, and knowledge transfer

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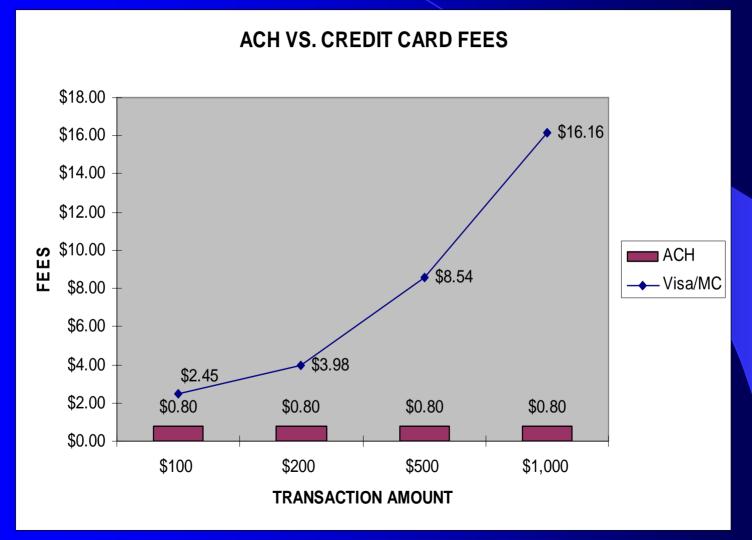
- Currently available under statewide ePay contract:
  - Automated Clearing House (ACH)
  - Credit cards Visa/MC, AMEX,
     Discover
  - Interactive Voice Response (IVR)



- Currently available under statewide ePay contract:
  - "Signature" and PIN debit cards point of sale Visa/MC
  - Wire transfers to TRE
  - Combination of any or all of the above as needed

# Transaction Cost Comparison







- HCF Nursing Facility User Fee Renewals ePay pilot implementation went live on January 18, 2007
- 2 months of processing
- 57 ACH transactions
- Transaction cost of \$45.60 to the Commonwealth
- Total \$5,027,848 deposited directly into Commonwealth accounts from customers

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## **New Initiatives:**

- PCI Compliance has emerged as a major initiative for the credit card channel. Our approach:
  - Communications
  - Questionnaire/Assessment
  - RFR for supporting assessment services and scans
- Promoting PIN debit and ACH as the most economical option for point of purchase business
- Exploring new transaction types such as Back Office Conversion (BOC) of consumer payments into the ACH network for traditional channels such as lockbox

# PCI- What can you store and what you can't

	Component	Storage Permitted	Protection Required	
Cardholder Data	Cardholders Account #	YES	YES	
	Expiration Date	YES	YES	
	Service Code	YES	YES	
	Cardholder Name	YES	YES	
Sensitive Authentication Data	Full Magnetic Strip	NO	N/A	
	CVC2/CVV/CID	NO	N/A	
	PIN	NO	N/A	
36	5/10/2007	7		

## New Statewide Single Auditor

- Completed procurement in June of 2006 – KPMG chosen
- Contract signed in the fall for FY2007 through FY2010 with option years
- Audit process commenced in January



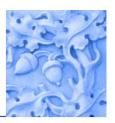
#### **Commonwealth of Massachusetts**

May 2007

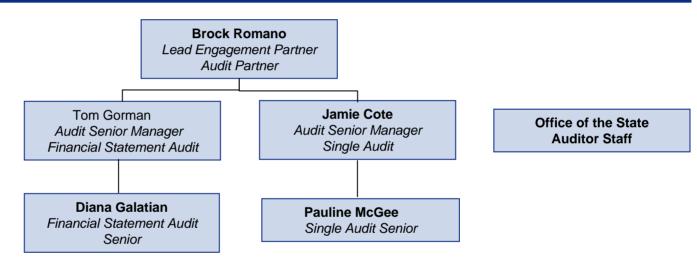
KPMG LLP

#### **KPMG Representatives:**

Brock Romano Tom Gorman Jamie Cote



#### Commonwealth of Massachusetts - Selected Engagement Team Members



#### **KPMG Staff and Women- and Minority-owned Business Enterprise Subcontractors:**

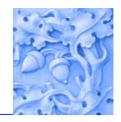
KPMG Staff:

Smith Utubor Michael Ahlstedt Jennifer Bernardi Xiao-Jin Ruan Matthew Griffin Jason Kirby David Sorman

#### **Subcontractors:**

Susan Perna-Damon Margaret Carr Mike Mascio Dan Dennis & Co





#### **Audit Timeline - What to Expect**

#### **Entrance Conferences (May/June)**

- Comptroller's Office will coordinate
- Schedules to be prepared by client (PBC)
- Review of sample sizes and selection of sample items
- Logistics

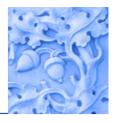
#### Interim Field Work (June/August)

- Understand key business processes
- Internal control documentation and testing
- Test selected transactions
- Discuss and resolve audit observations

#### Final Fieldwork (September/November)

- Finalize testing of transactions and accruals
- Discuss and resolve audit observations
- Financial reporting
- Issue opinions





#### Statement on Auditing Standards No. 112

#### Statement on Auditing Standards (SAS) No. 112, Communicating Internal Control Related Matters Identified in an Audit

- The Statement is effective for audits of financial statements for periods ending on or after December 15, 2006.
- SAS 112 establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements. It is applicable whenever an auditor expresses an opinion on financial statements. In particular, this SAS:
  - defines the terms "significant deficiency" and "material weakness";
  - provides guidance on evaluating the severity of control deficiencies in an audit of financial statements; and
  - requires the auditor to communicate, in writing, to management and those charged with governance, significant deficiencies and material weaknesses identified in an audit.
- In this regard, suggested areas of focus for management should include the documentation and review of the following:
  - Key reporting and operating activities
  - Nature and source of accounting entries and required approvals
  - Description and frequency of reconciliation procedures
  - Financial reporting (internal and external) preparation practices
  - Nature and source of journal entries and required approvals
  - Preparation and review of management's judgments and estimates
- In addition, management should establish a plan to evaluate and test the operating design and effectiveness of those procedures on a rotational basis.
- Other items that will suggest to the auditor that a significant deficiency or material weakness exits include:
  - adjusting journal entries proposed by the auditor (whether or not actually booked)
  - incomplete or incorrect draft financial statements submitted to auditor for review
  - key controls not functioning during the period (e.g. review and approval, reconciliations)

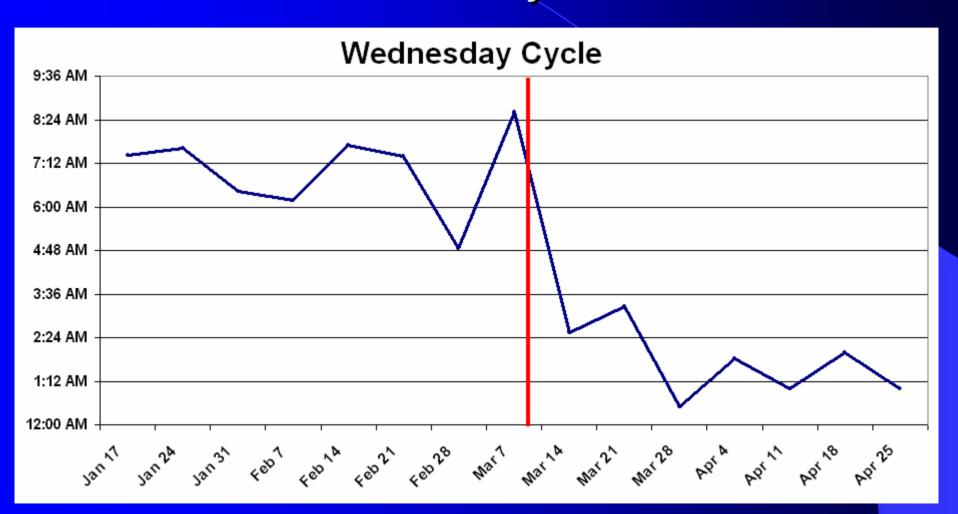




# Joan Shea Deputy Comptroller



### MMARS Availability





## MMARS Availability

- 3.5.0.9 improved nightly batch times
- On-lines available when nightly cycle ends
- Extending evening hours to 7 p.m.
   Monday, Wednesday and Friday
- Helpdesk support hours remain the same



# New Training Offerings

- HRCMS Payroll end to end: HRCMS through LCM
- Intro to HRCMS Payroll Warehouse
- State Finance: An Executive Overview



- Outreach Continues
- Additional Benefits
  - 30 Pay Periods
  - Unofficial W-2
- Savings to Department Administrative Costs





# Kathy Sheppard Deputy Comptroller

## **Topics**

- Expenditure Classification Handbook
- Accounts Payable
  - Payee & Tax Management
  - Encumbrance Management
  - Payments
- MMARS Transaction Coding
- Payroll/LCM
- Quality Assurance
- Policy Updates

#### Expenditure Classification Handbook

 Adhere to classification rules when adjusting encumbrances

#### Coming soon -

- Updated Introduction
- Requests for new object codes are currently under review



### Accounts Payable

Payee Management and Tax Reporting

The Commonwealth continues to increase the volume – both transactions and dollars – of payments via EFT

As a result a Payee's legal address may not be updated timely in MMARS.

The timely processing of changes of address is critical to assure proper distribution of tax documents

- Finalizing Contracts
  - Exec Branch Departments' encumbrances in June >=\$25,000 need to be approved on the ANF platform
  - For Encumbrances > delegation last day to process FY07 business is Friday June 29<sup>th</sup>
  - Review all active encumbrances to conclude year end

- Encumbrance Corrections
  - CEC / GAEC referencing an ER must be submitted by Monday July 2<sup>nd</sup>
  - CEC / GAEC / PRN Event type PR22 must be offset by Tuesday July 31st
  - CEC / GAEC to correct encumbrance (no ER) and Zero dollar event type PR20 deadline is Friday August 31st

Extending Contracts

#### Take the time to review contracts now

- Once a contract terminates, new performance must stop
- A contract may not be "revived" retroactively back to the termination date

- Late Encumbrances
  - First Answer is NO now is the time to review your accounts and documentation
    - Net Zero Dollar Encumbrance Adjustments
    - Subsequent Legislative Authorization
  - Late Encumbrance Transmittal Form

## **Accounts Payable Extensions**

- Memo will be issued by ANF
- Exception process for budgeted funds only
- Accounts Payable Period ends August 31<sup>st</sup> for Federal, Capital and Trust funds



### Accounts Payable

- Payment even without an invoice if performance is confirmed on/prior to 6/30/07
  - If it appears that a Department may not receive invoices by August 15<sup>th</sup> and
  - The Department can verify goods or services by June 30<sup>th</sup> and
  - The Department can verify the contract value of the performance in accordance with contract terms



### Accounts Payable

 Payment even without an invoice if performance is confirmed on/prior to 6/30/07

> • The Department should provide written notice to the vendor that if they fail to invoice they will be issued a payment for the amount determined in the notice which represents full satisfaction of any and all outstanding amounts owed.

Contract Rolls

- Out Year Roll
  - Scheduled for June 2<sup>nd</sup>
    - No submit functionality May 31<sup>st</sup> / June 1<sup>st</sup>
- Unspent Roll
  - Scheduled September 1<sup>st</sup>
  - Capital, Trust and Federal Fund types
  - Streamlined roll process being developed



- New ISA's can be executed based on House I
- Multi Fiscal Year ISA
  - Will be rolled by ANF and CTR jointly on behalf of Departments



DOC ID Coding

- Privacy Concerns
  - DOC ID
  - Invoice #
  - Check Description







- Split Week Payroll will split 50% for FY2007 and 50% for FY2008
  - Same Split as last year
  - Position Changes in HR/CMS will effect the Proration
  - Retro Earning Codes will all post to FY2007





## **Payroll**

- Payroll Holds are work flowed to help ensure proper set-up.
- Policy to encumber funds for Accounts Payable remain unchanged

### **Payroll**

- Holding Paychecks
  - Goal is to make sure all payroll is funded prior to payroll processing.
    - Budget will be fully allotted on May 14<sup>th</sup>



Revised Internal Control Guide





#### Jenny Hedderman Deputy General Counsel

## Highlights of Policy Updates

- Amendments
- Renewals
- Extensions
- Settlement and Release
- Standard Contract and Amendment Form
- Department Head Signature Authorization



#### GOALS

- 1. Reduce paperwork and number of forms
- 2. Make paperwork process more efficient
- 3. Make paperwork more reflective of actual performance obligations

#### **State Finance Law Reminders**

 Contractors may not incur an obligation payable by the Commonwealth prior to "legal authorization" by a Department

#### State Finance Law Reminders

 The "legal authorization" to incur an obligation is a Contract, Amendment or Extension

 Therefore, Contracts, Amendments, Extensions must be "in place" <u>prior</u> to a Contractor incurring an obligation.

#### When is Formal Amendment Required?

- Policy clarifies that a formal Amendment will be required for <u>significant</u> or "<u>material</u>" changes to the performance expectations or obligations in a Contract (e.g., Maximum obligation, dollars, volume of services, new services, duration.)
  - Departments can document process for minor changes as part of RFR or Contract.



#### **AMENDMENTS - OPTIONS TO RENEW**

- Amendment to renew must be executed on or before termination date
- Failure to execute a timely Amendment will result in contract termination
- Once a contract terminates, new performance must stop and a contract may not be "revived" retroactively back to the termination date.

(i.e., "legal authorization" must be in place prior to new performance.)

# What if Amendment may not be executed on or before termination date?

- Provide <u>Written Notice of Contract</u> <u>Extension</u> (not to exceed 30 days) to enable execution of Amendment.
  - Extension is not "effective" until date the Contractor <u>confirms</u> receipt of the notice of extension.
  - Extension provides "legal authorization" for new performance until Amendment is in place

#### **LIMITED 30-DAY CONTRACT EXTENSION**

#### **Other Requirements:**

- Must be "allowable" under procurement authorization. (Unless also doing an "Interim" Contract or Grant.)
- NOT for "new" Contracts.
- Must be supported by sufficient funding
- Allows MMARS encumbrance modification to add up to 30 days to current encumbrance (if payments are needed prior to Amendment)
- Attach extension documentation to Amendment documentation when Amendment completed.

# REMINDER NEGOTIATE PROMPT PAY DISCOUNTS AND EFT DURING CONTRACT AND AMENDMENT PROCESS

Departments should negotiate use of *Electronics*Funds Transfer (EFT) and Prompt Payment

Discounts whenever a Contract or an

Amendment is negotiated.

# Updated Standard Contract and Amendment Form

 The Standard Contract Form and Standard Contract Amendment Form are being merged into one form (similar to ISA Form)

Standard Contract and Amendment Form

### Updated Standard Contract and Amendment Form

- Incorporates the following "certifications" into the "Contractor Certifications" of the attached Instructions:
  - Prompt Payment Discount Form
  - Executive Order 481 Certification
  - Northern Ireland Certification
  - Affirmative Action Certification
  - Consultant Contractor Mandatory Submission Form.
  - These Forms will still be available if Departments want this
    information as part of a procurement as a basis for selection,
    but separate attachments no longer required.

#### "Effective Date" Remains the Same

• Legal "Effective Date" is still the latest date the Contract/Amendment is signed by Authorized Signatories of the Contractor, the Department, a later date listed in the Contract or Amendment or the date of any required approvals.



#### What's New?

 Notice of Contract Extension and Amendments will now be accepted after the termination date of a Contract.



#### What's New?

- Previous restriction prohibited an extension or amendment after the termination date and required:
  - a Settlement and Release Form (for obligations outside of contract), and
  - New Contract (if renewal amendment was being done)
- New process allows any obligations incurred <u>prior</u> to Effective Date of Extension or Amendment ("outside the scope of the contract") to be "Settled" as part of the Standard Contract and Amendment Form.

### Updated Standard Contract and Amendment Form

- Departments should enter the date obligations will be incurred under "START DATE".
  - Departments will then select:
    - 1. No obligations were incurred prior to the Effective Date, OR
    - 2. Performance incurred prior to the Effective Date is included as a "Settlement" as part of the Contract/Amendment.

#### New process does NOT prevent Audit or Quality Assurance findings for allowing performance to occur without a Contract in place

#### However, new process:

- Provides more efficient way to document performance if an inadvertent lapse occurs;
- Prevents lapse in performance;
- Allows Department to continue to take advantage of prompt payment discounts since payments are not delayed;
- Includes all performance under single Contract document and MMARS encumbrance;
- Documents that both Contractor and Department are admitting to performance outside scope (to encourage future compliance);
- Protects Commonwealth from future claims for "additional costs" for Settled performance.

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# Reminder MMARS MUST MATCH CONTRACT, AMENDMENT OR EXTENSION

- MMARS considered the "official record" or "record copy" of fiscal activities and will supersede paper or other formats of the same information.
- MMARS must match the full duration and amounts of underlying Contract, Amendment or Extension
- Any "out year" of a multi-fiscal year contract within the total duration without payment obligations must still be reflected in MMARS

# Department Head Signature Authorization Policy

- Policy on Department Head Signature Authorization (DHSA) has NOT changed
  - DHSA may only be delegated to "employees" of the Department, and can not be delegated to "nonemployees" or "contract employees"
- This policy is currently in the ISA policy since issues normally arose under ISAs
- Now being incorporated into all CTR policies

# Department Head Signature Authorization Policy - Updates

- Also clarified that "Shared Processing" of MMARS transactions (including LCM) is not shared Department Head Signature Authorization.
  - Authority to expend funds comes from LEG
  - DHSA can not be delegated to another Department w/out Legislative authority
  - Departments can share processing, but not DHSA approvals and not staff.
  - Employee of one department can not approve or manage business of another Department.

## So What about ISAs? Isn't an ISA a transfer of DHSA?

- No. A Department may "contract out" to another Department under an ISA to "perform services" but is not "transferring" the Department's authority or responsibility to ensure that the Department's mandate is fulfilled.
- Therefore, any encumbrance or expenditure actions by the "performing" Seller Department ("Child") must be approved by an authorized signatory of the Buyer Department ("Parent")

#### **Department Head Signature Authorization**

- Clarified that "alternate methods" of documenting "evidence" of DHSA are allowable
  - MMARS functionality is designed to support extensive use of electronic signatures for DHSA purposes.
  - Departments are encouraged to use this functionality to electronically document DHSA by encouraging signatories to access and view documents on-line and apply approvals.

#### **Department Head Signature Authorization**

- However, DHSA signoff can be made in a variety of ways and does not necessitate approval in MMARS or HR/CMS directly or screen prints of MMARS or HR/CMS screens.
  - Departments can use the <u>MMARS Document Records</u> <u>Management/Signature Authorization Form</u> to approve one or multiple MMARS transactions.
  - Emails from the Department Head (or authorized signatory) with the key data elements for approval;
  - DHSA signature or initials on invoices, spreadsheets or memorandum, or other "evidence" of signoff is also sufficient.

# Department Head Signature Authorization Evidence of DHSA Signoff

- Departments may develop any internal process (as part of the Department Internal Control Plan) that efficiently "documents" Department Head signoff.
  - For "shared processing" models, departments should develop internal process for capturing DHSA from Parent Department (but can not blanket "in advance" approval).
- Electronic evidence of approval such as emails must be printed and retained in order to document approval, since emails are not yet a sufficient electronic format to retain records.
- Once the evidence of DHSA approval is obtained, electronic approval can be made in MMARS, and filed for records management, Quality Assurance and audit. purposes.

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### Department Head Signature Authorization and MMARS Security - Plan

- We will be working with Departments to ensure that MMARS Security is aligned with Department's intent for DHSA
- We also plan to provide additional guidance on how to set up DHSA and MMARS Security to support Department business needs and maintain Internal Controls
- We will be contacting Departments with "Shared Processing" models to identify and work through any issues or concerns